

# **CHILD CARE**

<Early Learning Fund  
<Head Start  
<Child and Dependent Care Tax Credit

## **EARLY LEARNING FUND**

### **Background**

The President is proposing to create a new mandatory grant program for states to subsidize early education programs for children up to age 5. This “Early Learning Fund” will receive \$600 million in fiscal year 2001. The funds are to be used by states to improve child care safety and quality, enhance early childhood development, emergent literacy, and school readiness. Funding will be provided in the form of community-level competitive grants.

### **Key Points**

- < The General Accounting Office [GAO] has identified more than 90 Federal preschool and child care programs in 11 Federal agencies and 20 offices. Thirty-four of these are identified as “key” programs whose primary purpose is child care or child development for children under age 5.
- < The President’s proposal would duplicate current Federal programs such as Head Start, Even Start, Title I of the Elementary and Secondary Education Act, the Child Care and Development Block Grant, and the Social Services Block Grant.
- < The Head Start program already has as its mission the enhancement of early childhood development, literacy, and school readiness. Under current law, Head Start will spend \$23.3 billion over the next 5 years.
- < The President’s budget also proposes to increase funding for Head Start by \$1 billion in fiscal year 2001.
- < Twelve percent of the \$8 billion in annual funding under the Elementary and Secondary Education Act is earmarked for kindergarten or pre-kindergarten programs, which promote school readiness for the 5-and-under population.
- < Five percent of the \$1 billion in annual discretionary funding for the Child Care and Development Block Grant is earmarked for activities that enhance, promote, and monitor the quality of child care facilities within a State.
- < According to the Cato Institute, 39 States fund pre-kindergarten programs, and 24 States

fund statewide comprehensive programs for infants and toddlers. The average state spending on these programs is \$47.3 million. Total spending by all States is *\$1.8 billion* annually.

## **HEAD START**

### **Background**

The administration is expected to propose \$6.3 billion for Head Start for fiscal year 2001. This amount represents an increase of \$1 billion, or 19 percent, over fiscal year 2000. Head Start provides grants to local public and private non-profit and for-profit agencies for comprehensive child development services to children and families. It is intended primarily for preschool children from low-income families. Since 1965, the program has served almost 18 million children at a total cost of \$42.3 billion. Between fiscal years 1990 and 1998, annual funding more than tripled, growing from \$1.5 billion to almost \$5.3 billion.

### **Key Points**

- < Many of the reforms of the 1998 Head Start reauthorization have not been implemented yet. A funding increase of such magnitude should not be made until the Department of Health and Human Services and congressional authorizers have reviewed the impact of the reauthorization reforms.
- < According to GAO's March 16, 1998 Congressional testimony, "Little is known...about whether the program has achieved its goals."
- < Despite an extensive body of literature on Head Start, only a small part involves research on the impact of Head Start programs.
- < According to the Cato Institute, 39 States fund pre-kindergarten programs, and 24 States fund statewide comprehensive programs for infants and toddlers. The average State spending on these programs is \$47.3 million. Total spending by all States is *\$1.8 billion* annually.

### **Waste, Fraud, Abuse, and Mismanagement**

- < There is a great deal of duplication and overlap in the early childhood development area. The General Accounting Office [GAO] has identified more than 90 Federal preschool and child care programs in 11 federal agencies and 20 offices. 34 of these are identified as "key" programs whose primary purpose is child care or child development for children under age 5.
  - In addition to Head Start, Federal early childhood programs include Even Start,

Title I of the Elementary and Secondary Education Act, the Child Care and Development Block Grant, and the Social Services Block Grant.

- 12 percent of the \$8 billion in annual funding under the Elementary and Secondary Education Act is earmarked for kindergarten or pre-kindergarten programs, which promote school readiness for the 5-and under population.
- 5 percent of the \$1 billion in annual discretionary funding for the Child Care and Development Block Grant is earmarked for activities which enhance, promote and monitor the quality of child care facilities within a State.

## **CHILD AND DEPENDENT CARE CREDIT**

### **Background**

Under current law taxpayers are allowed to claim a tax credit for child care expenses which allow the parent(s) to work. Expenditures eligible for the credit are limited to \$2,400 per child, with a family limit of \$4,800. The credit rate is 30 percent for the lowest earning taxpayers (incomes below \$10,000) and falls to 20 percent for those with incomes above \$28,000. Thus, the maximum credit falls from \$1,440 to \$960 as income rises.

The President would change the existing credit in a number of ways:

- < The maximum credit rate would rise from 30 percent to 50 percent of qualified expenses. This rate would apply to families “earning up to \$60,000.” The maximum credit would thus rise to \$2,400.
- < The credit would be made refundable.

### **Key Points**

- < The key element of the proposal is to make the credit refundable. Numerous problems exist with this approach.
  - The IRS’s enforcement mechanisms were developed on the premise that individuals had an incentive to hide income from the Government. With refundable credits, taxpayers have an incentive to create fictitious income to qualify. This has proven to be a significant problem in the Earned Income Credit [EIC]. The IRS Inspector General reports that “taxpayers have filed fraudulent forms for “Profit or Loss From Business (Schedule C) reporting false income to maximize their EITC.” That program has a nearly 35 percent overpayment rate which costs the government \$8 billion per year.
  - There is no reason to introduce another refundable credit targeted on the same

population– families with children.

- < The premise behind the Child and Dependent Care Credit is that child care is an expense incurred in the generation of taxable income and therefore should not be taxed. Making it refundable undermines this link between work and work expenses and converts the credit into little more than a welfare payment.
- < In addition, families with children have recently been the beneficiaries of recent tax benefits, notably the \$500 a child credit passed as part of the Taxpayer Relief Act of 1997. In addition, by keeping the same limits on total allowable expenditures, the proposal perpetuates a bias in the code against larger families. Finally, the President's proposal fails to make the credit applicable to the Alternative Minimum Tax, an ever growing problem for many taxpayers.